



Quarterly Review of Investment Strategy

Bernalillo County, NM



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Bernalillo County Investment Committee

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Investment Priorities

Investment Priorities

Our investment objectives and philosophy are consistent with all of our clients:

-  ***Safety is primary objective***
-  Transparency
-  Compliance
-  Liquidity
-  Yield

Investment Objectives

- ❏ Ladder investments to best match cash flows and cash needs – smooth ladder.
- ❏ Comply with investment policy, including the liquidity requirement, the definition of which changed with the last investment policy update, approved August 9, 2016.
- ❏ Cash flows have been refined and policy updated in an effort to move money out of bank accounts and invest it to improve yield.
- ❏ Stay abreast with current market conditions to best manage market and interest rate risk.
- ❏ Maintain a high level of communication between departments to facilitate optimal investment strategy.

Investment Strategy – Last Quarter

Fiscal Year 2016 – Previous Quarter Strategy*

Operating Funds Portfolio

- The focus of the working group has been and continues to be on putting more cash to work for the County to improve investment earnings.
- Investment Policy changes outlined on the previous slide have benefited the portfolio performance, while maintaining safety and liquidity.
- As of September 30, 2016, 37% of the County's operating funds held in cash accounts (negotiated savings accounts) versus 57% in the previous period. The working group has been able to put more money to work (invested out the curve v. bank deposits), significantly improving yield. This strategy will continue.
- Working group discussion continue to focus on ways to make the investment process more efficient so that we can act more quickly when markets look favorable. As a result, the strategy approval is per quarter rather than every trade, which gives the investment advisor more latitude to react to market conditions.
- Performance has improved and the Investment Working Group will continue to review opportunities to invest the cash, build the investment ladder and improve portfolio performance.

Fiscal Year 2016 – Previous Quarter Strategy*

Bond Proceeds Portfolio

- Maintain the course.
- This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- The portfolio is invested in a smooth ladder of securities with \$1.5 million maturing each month to fund project draws.
- A new cash flow projection has been created by the Accounting and Budget office, specifically for the Bond Proceeds portfolio.
- The County issued debt and the bond proceeds funded on March 22, 2016.
- As can be seen on slide 13, interest rates had come down since the bonds funded in March, but have rebounded in shorter maturities as the yield curve has flattened.
- Now that the Investment Working Group has been working with this portfolio for a full year, there is room to tweak processes and the cash flow to capitalize on investment opportunities.

Review of Current Portfolios and Markets

Bernalillo County Operating Funds Portfolio – Dec 31, 2016

	Market Value + Accrued	% of Total	Book Yield
Summary of Investment Funds:			
US Treasury Securities	\$ 109,471,775.12	25.66%	0.802%
US Agency Securities	\$ 35,051,656.94	8.22%	0.732%
Cash - Wells Fargo MMF	\$ 10,025,000.48	2.35%	0.370%
Cash	\$ 5,090,212.13	1.19%	0.00%
Summary of Negotiated Bank Deposits:*			
Wells Fargo Savings	\$ 206,432,006.22	48.40%	0.164%
First National Bank Santa Fe	\$ 20,091,742.07	4.71%	0.247%
Bank of the West	\$ 40,383,627.08	9.47%	0.305%
Total Month-end Bank Balances	\$ 266,907,375.37	62.57%	
Total Investable Funds	\$ 426,546,020.05	100.00%	0.466%
Previous Month Total Investable Funds	\$ 314,644,808.88		0.555%
<i>* Average Monthly Bank Deposit Balances (on which returns are calculated):</i>			
Wells Fargo Savings	\$ 207,654,732.44		
First National Bank Santa Fe	\$ 20,087,874.32		
Bank of the West	\$ 40,373,343.27		
Total Average Bank Balances	\$ 268,115,950.03		

Bernalillo County Operating Funds Portfolio (ex. Bank Deposits)

Balance Sheet

Book Value + Accrued	160,075,246.73
Net Unrealized Gain/Loss	-458,477.05
Market Value + Accrued	159,616,769.68

Index Comparison Summary

<i>Risk Metric</i>	<i>Portfolio</i>	<i>Index</i>	<i>Difference</i>
Duration	1.08	0.928	0.152
Yield	0.817	0.809	0.008
Years to Effective Maturity	1.095	0.934	0.161
Years to Final Maturity	1.095	0.934	0.161
Average Credit Rating	AAA	AAA	---

Bernalillo County Bond Proceeds Portfolio

Balance Sheet

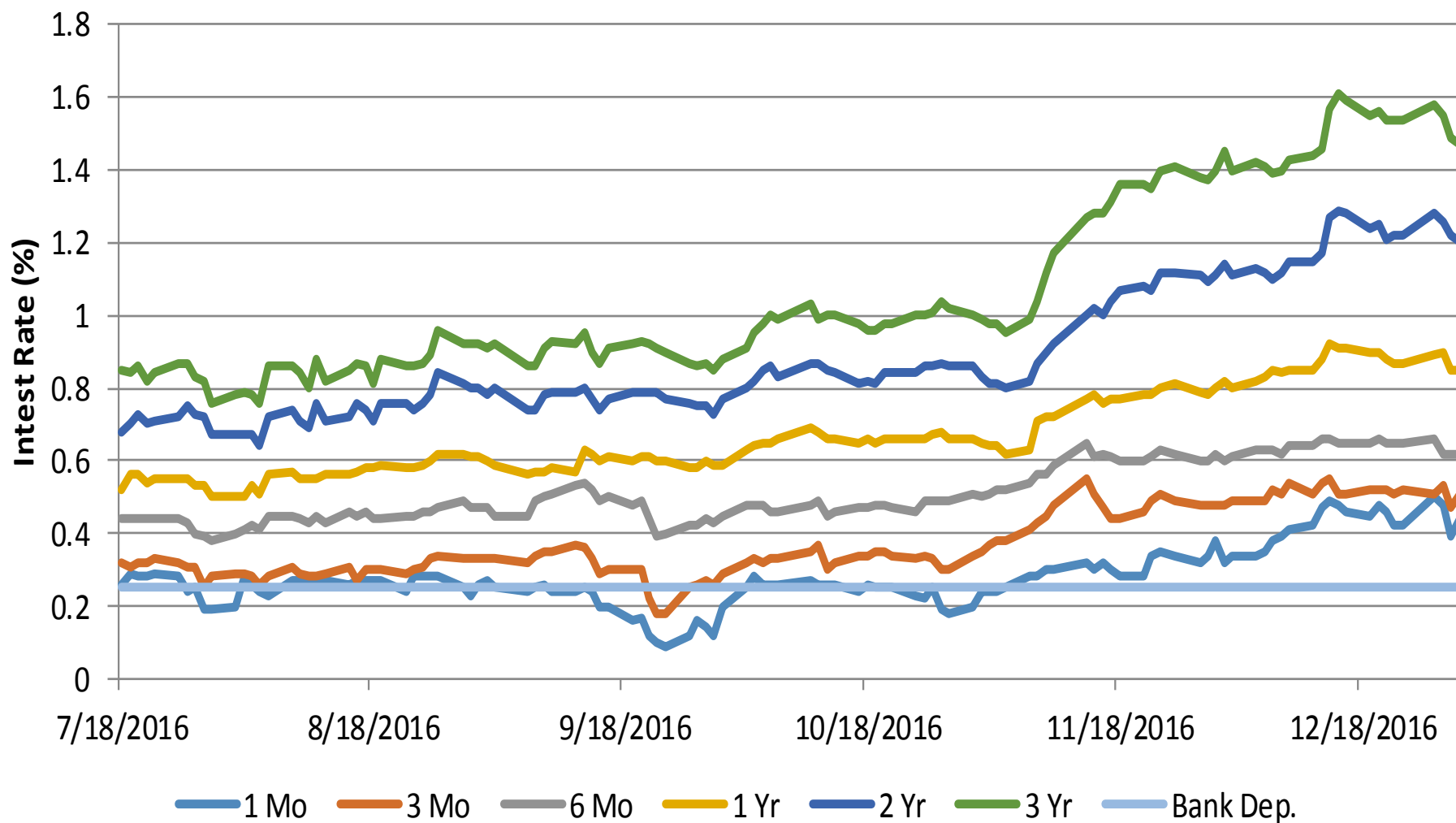
Book Value + Accrued	23,783,573.51
Net Unrealized Gain/Loss	-12,381.77
Market Value + Accrued	23,771,191.74

Index Comparison Summary

<i>Risk Metric</i>	<i>Portfolio</i>	<i>Index</i>	<i>Difference</i>
Duration	0.611	0.928	-0.317
Yield	0.679	0.809	-0.13
Years to Effective Maturity	0.613	0.934	-0.321
Years to Final Maturity	0.613	0.934	-0.321
Average Credit Rating	AAA	AAA	---

US Treasury Rates

7/1/16 to 12/30/16



US Treasury Interest Rates – Change in Calendar Year 2016

Treasury Sec.	31-Dec-15	30-Dec-16	Change
1 mon	0.14%	0.44%	0.30%
3 mon	0.16%	0.51%	0.35%
6 mon	0.49%	0.62%	0.13%
1 year	0.65%	0.85%	0.20%
2 year	1.06%	1.20%	0.14%
3 year	1.31%	1.47%	0.16%

Source: Treasury yields - United State Treasury: <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>.

US Treasury and Agency Yields Year-over-Year 2015-2016



Source: Bloomberg.




Investment Strategy – Coming Quarter

Investment Strategy - Operating Funds

- The focus of the working group continues to be on putting more cash to work for the County to improve investment earnings.
- As of December 31, 2016, 62.6% of the County's operating funds held in cash accounts (negotiated savings accounts) versus 79.1% in the same period in 2015. The working group has been able to put more money to work (invested out the curve v. bank deposits), significantly improving yield.
- Cash balances are typically high at the end of the calendar year due to property tax collections, which have yet to be distributed to other taxing entities. Over 70% of taxes collected to distributed 30 days after collection.
- The upward shift in interest rates on the short end of the yield curve (seen on slide 15) provides opportunity to more efficiently invest the required liquidity portion of the portfolio.
- The new County Treasurer is being briefed by the Investment Working Group regarding the history of the strategy and data necessary to set the course for investment strategy going forward in her administration.

Operating Account – Looking Forward

Bernalillo County Operating Fund Portfolio account has roughly \$40mm maturing over the next 6 months:



DASHBOARDS ACCOUNTING

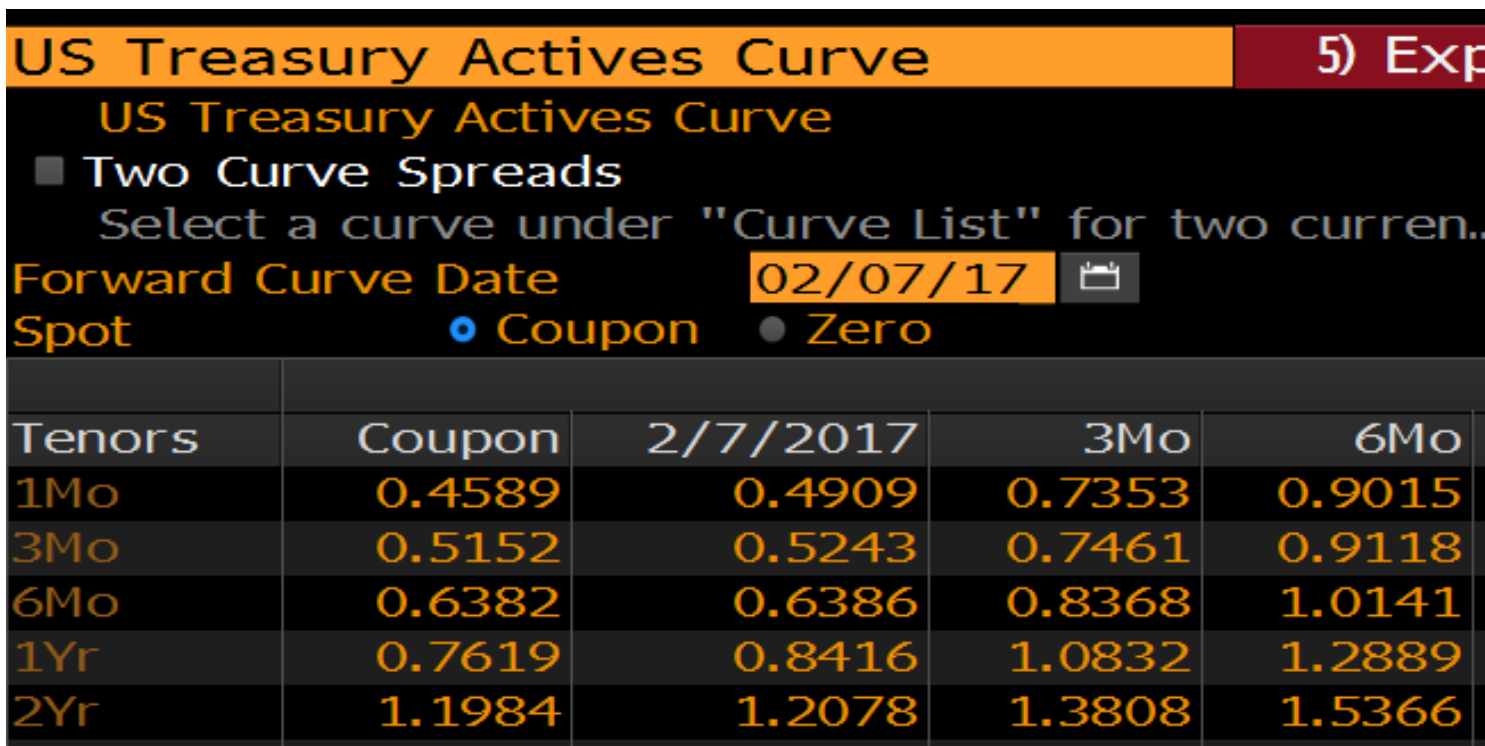
GAAP Balance Sheet by Position
Bernalillo County Op Funds (40455) As Of 01/30/2017

Identifier	Description	Original Units	Final Maturity
94975P405	WELLS FRGO GOVERNMENT C...	10,000,000.00	01/30/2017
912828SC5	UNITED STATES TREASURY	5,000,000.00	01/31/2017
912828J35	UNITED STATES TREASURY	5,000,000.00	02/28/2017
912828SM3	UNITED STATES TREASURY	9,915,000.00	03/31/2017
3135G0ZB2	FEDERAL NATIONAL MORTGAG...	5,000,000.00	04/20/2017
912828SY7	UNITED STATES TREASURY	5,000,000.00	05/31/2017
912828TB6	UNITED STATES TREASURY	5,000,000.00	06/30/2017
912828XP0	UNITED STATES TREASURY	5,000,000.00	07/31/2017

Image Source: Clearwater Analytics

Operating Account – Looking Forward

If we assume these funds are reinvested for 1.5 years based on the current forward rate curve – see below:



The screenshot displays the Bloomberg terminal interface for the US Treasury Actives Curve. It shows a table of forward rates for various tenors (1Mo, 3Mo, 6Mo, 1Yr, 2Yr) as of 02/07/17. The table includes columns for the tenor, coupon, and forward rates for different maturities (2/7/2017, 3Mo, 6Mo). The interface also shows options for selecting a curve under "Curve List" and a "Forward Curve Date" field.

Tenors	Coupon	2/7/2017	3Mo	6Mo
1Mo	0.4589	0.4909	0.7353	0.9015
3Mo	0.5152	0.5243	0.7461	0.9118
6Mo	0.6382	0.6386	0.8368	1.0141
1Yr	0.7619	0.8416	1.0832	1.2889
2Yr	1.1984	1.2078	1.3808	1.5366

Image Source: Bloomberg

- ☞ The yield on the portfolio would be augmented by 13 basis points, increasing the total portfolio yield to approximately 1.07%.
- ☞ Investing the \$40mm in US Agency paper could boost the total portfolio yield by an additional 3-4 basis points.

Strategies for The Added Value Approach For Portfolio Management

Our portfolio management and credit team coordinate with the investment advisor and client to determine the optimal approach based on our initial Client Review. We apply qualitative and quantitative methods for portfolio management with the goal of adding value to the investment program versus a purely passive investment approach.

- **Interest Rate Forecasting:** Forecasting is utilized to gauge the probable term structure of interest rates over our investment horizon and measure the impact on a portfolio's return over time. We can then implement maturity structure strategies based on expectations of increasing or decreasing interest rates.
- **Maturity Distribution:** Our strategy is to utilize a percentage of benchmark approach to duration management. We will typically reduce duration compared to the benchmark in a rising rate environment and move the duration to, or possibly slightly longer than the benchmark in a falling rate environment. This strategy can add value through income and/or lower price volatility as interest rates change.
- **Shape of Yield Curve:** As part of the maturity structure approach, the shape of the yield curve can shift during increasing and decreasing interest rate environments. Market conditions, liquidity stemming from supply and demand conditions, as well as realized and anticipated changes to monetary policy by the Federal Reserve can impact the shape of the yield curve. Steep yield curves offer an advantage of larger gains in yields for each unit of duration and a flat yield curve may result in a more cautious approach to longer term investing as a result of limited yield advantage for greater interest rate risk.
- **Asset Allocation:** Economic and geopolitical events often impact the term structure of interest rates. As demand for safe haven investments such as U.S. Treasuries increases (decreases), investors will typically demand a higher (lower) relative returns on other asset classes such as municipal debt. Adjusting asset allocation targets as part of a dynamic investment process may add value to the overall investment program from additional income and sector outperformance for a given period.

Duration and Sector Diversification

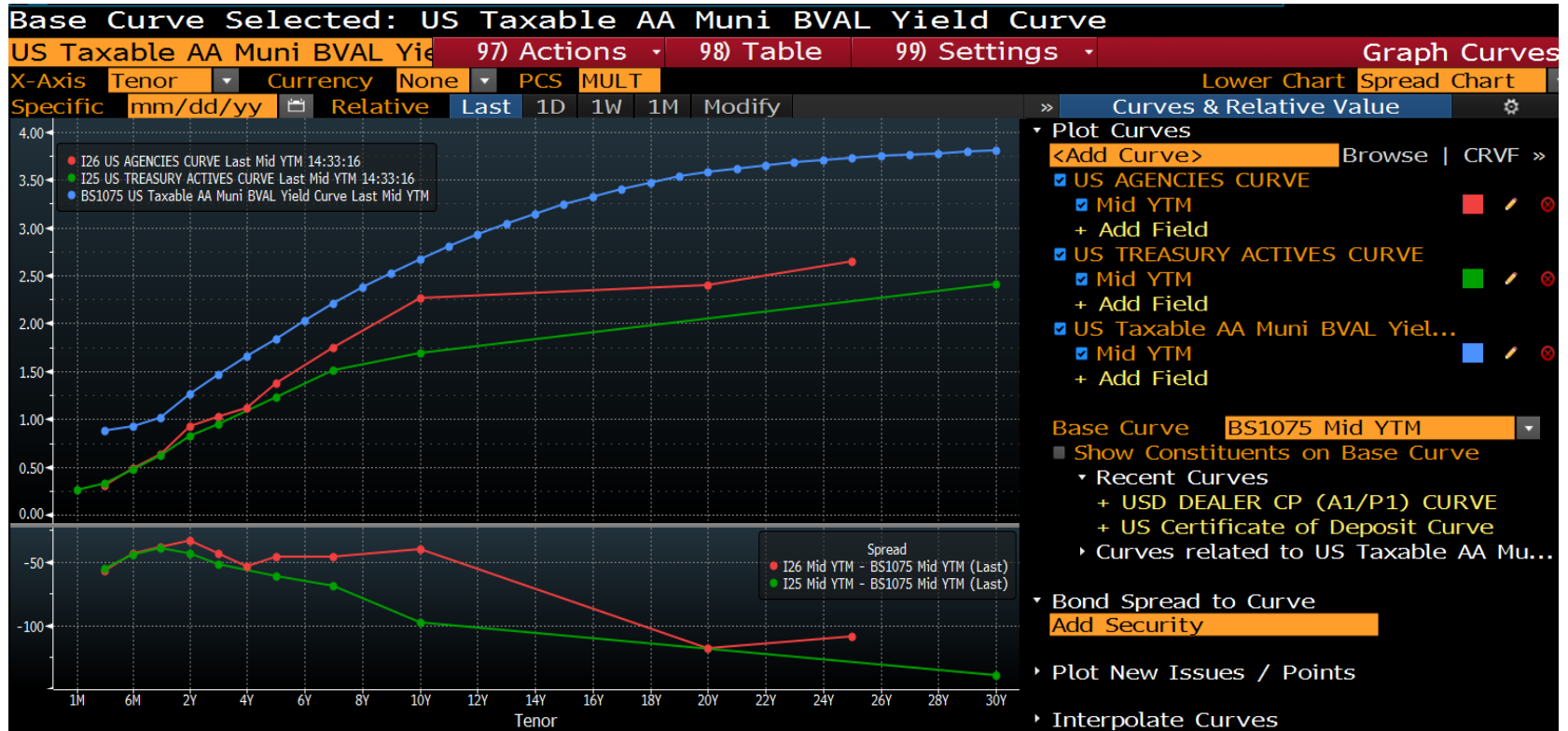


Image Source: Bloomberg

Examples of potential to add value:

- Upward sloping yield curve
- Sector diversification

Investment Strategy – Bond Proceeds

- Maintain the course.
- This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- The portfolio is invested in a smooth ladder of securities with \$1.5 million maturing each month to fund project draws.
- The County is set to issue debt on February 21, 2017.

Registered Investment Advisor – Standard of Care

Per Public Trust Advisors' current scope of work for Bernalillo County, we are required to prepare a quarterly investment review and present it to the Investment Committee and the Board of Finance. As a Registered Investment Advisor (RIA) under the Securities Exchange Act of 1940, we act in a fiduciary capacity for the County.

A fiduciary relationship is generally viewed as the highest standard of customer care available under law. Fiduciary duty includes both a duty of care and a duty of loyalty. Collectively, and generally speaking, these duties require a fiduciary to act in the best interest of the customer, and to provide full and fair disclosure of material facts and conflicts of interest.

~ Securities Industry and Financial Markets Association (SIFMA)

SIFMA Fiduciary Standard Resource Center, <https://www.sifma.org/issues/private-client/fiduciary-standard/overview/>

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The data in this presentation is unaudited.

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